Delivering a sustainable cost effective business model

ING Investor Day

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www.ing.com
Key messages

- The case for change in 2006: timing was crucial and in retrospect perfect
- The creation of a new, sustainable business model for the future
- New model creates structural competitive cost advantages
- Execution of integration is well on track
- Foundation for new Retail Banking standards of excellence – in place
## Case for change in 2006: timing was crucial

**ING Bank Netherlands (IBN) was subscale and had limited future growth potential**

- Limited share of primary customers in the consumer segment
- Inability to fully leverage its comprehensive bank infrastructure (including sales capacity) given its small primary customer base
- Insufficient budget for product innovation

**The Postbank model could not continue to deliver high profit growth**

- Inadequate physical distribution network and low 'professional and serious' image
- Weak advice proposition resulted in limited ability to fully leverage its large primary customer base
- Market share decline reflected the inability to retain starters and mortgage seekers
- Distribution costs were expected to increase due to rollout of additional Postbank shops and cost allocation with TNT joint venture

**IBN and Postbank both required significant IT investments to update complex and outdated systems**

- Approximately EUR 300 mln in IT investments was required in 2007
A sustainable business model was created

- **Base proposition**
  - Standardised and simplified products, processes and systems
  - High level of professionalism
  - “Direct when possible, advice when needed”

- **Sales model**
  - Relationship with the bank
  - Specialised sales forces for mortgages, securities, insurance
  - Decoupling of sales force and branches
  - Standard functionality in all systems and processes

- **Physical distribution**
  - ~ 285 branches and 530 shop in shop locations

- **Co-located as much as possible**
  - ~ 30 branches
  - ~ 100 RMs (mostly securities)
  - ~ 50 branches
  - ~ 300 RMs for all clients
Resulting in structural competitive cost advantages

![Diagram showing cost/income ratio and fixed-cost distribution model]

**Lowest cost/income ratio**

- C/I 50%
- C/I 75%

1. ING Bank without MKB and PBKZ
   Source: ING-NL Finance department; Annual reports of individual banks

**Low fixed-cost distribution model**

- Distribution costs amount to 50% of total costs for a normal branch bank

- ING Retail Netherlands
  - Fixed: 0
  - Variable: 100

- Typical branch bank
  - Fixed: 40
  - Variable: 60

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### Key events

- **Merger:** Official announcement to market
- **ING Cards:** One organisation, including one branch network and sales forces for mass
- **JV TNT:** One brand and one legal entity
- **Business Banking:** One system and process set (mass)
- **One organisation:** Implementation of Business Banking

### Net FTE reductions

- **Merger:** 2,500
- **ING Cards:** 32
- **JV TNT:** 871
- **Business Banking:** 307

### Status

- 16/05 2007: on track
- 01/01 2008: on track
- 05/03 2008: on track
- 01/06 2008: on track
- 02/01 2009: on track
- 07&8/02 2009: on track
- 16/05 2009: on track
- 01/06 2009: on track
- ... 2011: on track

### Progress of integration is well on track

- Customer awareness of the merger is 99%
- Since the announcement in May 2007, the net inflow of customers has improved
- Call volume and complaints have been significantly lower than expected
Estimated cost savings are ahead of schedule

- Total FTE reduction amounts to 4,230 by 2012
- Associated expected cost savings of EUR 220 million by 2012 on top of original business case

Cost savings ahead of schedule

Yearly cost savings (in EUR million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>30</td>
<td>92</td>
<td>140</td>
<td>160</td>
<td>280</td>
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</tbody>
</table>

Net FTE reduction

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE</td>
<td>404</td>
<td>817</td>
<td>1,777</td>
<td>1,917</td>
<td>2,500</td>
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<tr>
<td>Savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,849</td>
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</table>

Future FTE reduction

Expected net FTE reduction by 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Original</th>
<th>Accelerated</th>
<th>Integration</th>
<th>Closing JV</th>
<th>Business</th>
<th>Cards</th>
<th>Cost containment 2009</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE reduction</td>
<td>2,500</td>
<td>349</td>
<td>871</td>
<td></td>
<td>308</td>
<td>32</td>
<td>170</td>
<td>4,230</td>
</tr>
</tbody>
</table>

Net FTE savings now equal to originally estimated gross FTEs impacted
## Foundation for new Retail Banking standards of excellence – in place

### What we want to leverage

- Customer knowledge through centralised databases and integrated multi-channel sales capabilities
- A strong brand, reflecting professionalism, to further enhance customer acquisition and retention
- Effective distribution network
- Market leading operational efficiency of target platform to increase quality and reduce unit costs of all product processes
- No-nonsense, low-cost philosophy and central steering model

### Elements the merger delivered

- New specialised sales forces for mortgages, securities and pensions
- Optimised leads processes, complaints processes, etc.
- 285 remodelled ING branches
- New debit and credit cards for all clients
- 10 mln personalised mailings sent to customers informing them of new value proposition
- Closing of post offices (duplicate branch network) on schedule; flexible agent structure established
- New ING website (open and closed environment)
- Product portfolio harmonised and rationalised for mass segment (e.g. reduction from 70 to 21 savings products)
- Migration of first wave of 700,000 ING customers to more efficient Postbank platform on schedule for Q2 2009
- All Postbank systems have been rebranded to ING
- Two head offices integrated into one
- 4,000 FTE redundancies identified and announced

### Customer benefits

- Easy to deal with
- High level of professional, advice
- Value for money
ING is well positioned in a market that continues to evolve

- In retrospect, the timing of the integration was perfect
- ING Retail Netherlands is ahead of schedule on cost containment
  - By the end of 2009, twice as many FTEs will have been reduced as compared to the base "case for change" at the end of 2006
- ING’s operating model and cost structure are now easier to adapt to changing market circumstances
  - Specialised sales forces (decoupled from branches) facilitate ease of FTE deployment
  - Agent-based distribution network allows flexibility to adapt geographic footprint
  - Central steering enables faster, more informed and more rigorous reactions to market conditions

A sustainable cost advantage for the future has been created
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